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SUBJECT: CAN ITAMARATY'S STRANGLEHOLD ON FTAA POLICY BE BROKEN?

Classified By: Janice Fair, Economic Officer, Reasons 1.5 (b) and (d)

¶1. Summary. Widespread reporting in Brazil on the outcome of the FTAA TNC meeting in Trinidad & Tobago (T&T) unleashed a hail of criticism directed at Itamaraty, both on the substance of its FTAA policy and its conduct in T&T. By the end of the TNC meeting, Brazilian dailies were reporting that Brazil, along with Argentina, were isolated re their insistence on a draft FTAA Ministerial Declaration based along the line of Mercosul's 3-track proposal. Brazil's struggle during the TNC to keep Uruguay and Paraguay in the Mercosul fold was viewed as particularly damaging. Minister of Agriculture Rodrigues and Minister of Development Furlan joined the fray publicly charging that Itamaraty had not vetted the proposal it made in T&T with CAMEX, Brazil's high-level trade decision-making body, and claiming that Itamaraty intransigence is threatening the FTAA. President Lula convened a lunch meeting with Ministers on October 8 in which he ordered Ministers to cease and desist the public squabble. Chief of Staff Dirceu stated publicly that President Lula will more actively follow the negotiations and that the proposal presented in Trinidad and Tobago was "not the last word." Post held meetings with President Lula's Chief of Staff, and interlocutors in the Agriculture and Finance Ministries to explore possible implications of the internal dissent on the government's FTAA policy. Despite widespread frustration with Itamaraty's direction and stranglehold on FTAA policymaking, it is unlikely that a sufficient challenge will be mounted that could change GOB policy before the FTAA Ministerial in Miami at the end of November. End Summary.

Casa Civil

¶2. Chief of Staff Jose Dirceu conveyed to Ambassador during a lunch meeting on October 10 that President Lula wants an FTAA agreement and that Lula had instructed Foreign Minister Amorim to work with USTR Zoellick to that end when (if) they meet in late October. Dirceu commented that Minister Amorim's position within the government is very strong given Itamaraty's foreign policy successes over the past six months, but also stressed that President Lula sets policy and Itamaraty is charged with carrying it out. Dirceu said that he personally would be following the FTAA negotiations more closely, and planned to speak directly with Ministers Rodrigues and Furlan to better understand their concerns. On substance, he asked how the USG could expect Brazil to include sensitive issues such as IPR, services, investment and government procurement in the negotiations when it will not discuss agriculture. Ambassador noted that domestic support is only one aspect of agriculture and that we are actively negotiating a variety of agricultural issues, including market access. Dirceu expressed skepticism that the US would be very forthcoming in an election year.

Agriculture Ministry

¶3. On October 8, econoff met with Paulo Venturelli, the Agriculture Ministry's representative at the Trinidad & Tobago TNC meeting and General Coordinator of the Agriculture Policy Secretariat in the Department of Agricultural Economy to explore AGMIN views following the TNC, and to gain a better understanding of AGMIN's position following Minister Rodrigues' public criticism of Itamaraty. In a conversation with econoff in T&T, Venturelli had commented that the Itamaraty negotiators were "paranoid;" he was no less frank in the October 8 meeting, claiming that Itamaraty has been lying to President Lula regarding the FTAA. Clearly frustrated, Venturelli asserted that Itamaraty does not want to negotiate in any forum, FTAA or WTO, noting the collapse of talks in Cancun.

¶4. Venturelli said that top level officials of Itamaraty are formulating policy based totally of 1960's North-South ideology and without real economic consideration. Continuing to vent, he claimed that agriculture was not the central concern underlying Itamaraty trade policy, but rather was being used to shield their real interest, which is to avoid

negotiation of rules in services, investment, IPR and government procurement. As if the substance of the position is not bad enough, Venturelli complained that Itamaraty had not vetted the Mercosul proposal for a ministerial declaration presented in T&T with any of the other Ministries.

¶ 15. On domestic support, he said AGMIN understands the US position and wants to approach the issue from the standpoint of addressing the effects of domestic support within the hemisphere; according to him, it is not necessary to negotiate disciplines in the FTAA. He said AGMIN had developed some proposals along this line, but Itamaraty has not tabled them. He also said AGMIN doesn't have a problem with the US differentiated offer, which "represents more or less the relative access that exists today." According to Venturelli, AGMIN is anxious to work on a more specific level, toward negotiation of better access for products of particular interest.

¶ 16. Venturelli noted that CNA, the National Agriculture Confederation, is opposed to Itamaraty's approach. He also claimed that Argentina is not staunchly in the Brazil camp. According to Venturelli, Argentina had produced a proposal for the ministerial declaration that was much "softer" than the eventual Mercosul proposal presented in T&T, prompting Itamaraty Secretary General, Pinheiro Guimaraes, to go to Buenos Aires a week and half before T&T. He also insinuated that Argentine Vice Minister Martin Redrado departed from T&T early to distance himself from the Brazilian position.

¶ 17. On 4 1 negotiations, Venturelli said Amorim continues to claim that USTR Zoellick agreed to approach these bilaterally. Venturelli was present during the Mercosul-US bilateral in T&T and insists that despite the clear communication from the US regarding the need to keep any discussion within the FTAA, Itamaraty keeps trying to make it into something else.

¶ 18. Venturelli was pessimistic about a successful outcome in Miami. He suggested the USG adopt a hardline with the GOB, going so far as to tell Brazil to take the FTAA as is, or be left behind as the US and the other countries proceed to form the FTAA. His view is that this shock may be necessary before the government will admit that Itamaraty's policy is a failed policy. (Comment: It is doubtful that Minister Rodrigues would agree with this prescription, but its mere suggestion illustrates the intensity of frustration currently within AGMIN over the GOB's FTAA policy.) Venturelli also advised against allowing Itamaraty to define the language of the debate. His example was Itamaraty asserting that "the U.S. won't negotiate agriculture." He said that U.S. should say it is willing to negotiate everything -- even domestic support, his point being that there are many ways to negotiate an issue; it doesn't have to be through disciplines. He also suggested increasing pressure on Argentina.

Finance Ministry

¶ 19. On October 10, Ecouns and Econoff met with Arno Meyer, Deputy Secretary for International Affairs in the Finance Ministry and the Ministry's representative to the T&T TNC meeting. Meyer provided a frank and thoughtful analysis of the current state of play in the GOB on the FTAA and suggestions of how the USG could strengthen pro-FTAA forces within the government. He explained that while the Finance Ministry wants the FTAA because of the economic benefits associated with trade liberalization, Itamaraty has responsibility for trade policy. Other Ministries have an opportunity to interject their opinions, but he identified four perceptions that Itamaraty uses to justify its policy and that the other ministers find difficult to challenge. Given this, the other ministers have not been able to effectively insert their constituency's economic interests into the policy debate.

¶ 10. The four perceptions he identified are:
1) The U.S. won't negotiate agriculture. Unlike Venturelli's view, Arno said that agriculture is the key issue for the GOB, and the unwillingness of the U.S. to negotiate domestic support in the FTAA provides the main justification for Itamaraty's approach of removing other issues from the negotiation. While he understands the US argument about the best forum in which to negotiate disciplines, if there was some way that the U.S. could deal with the effects of domestic support in the region, Arno said this would significantly undercut one of Itamaraty's main arguments against the US position.

2) The U.S. won't negotiate antidumping rules. He said the US is vulnerable when it says "everything is on the table." Arno cited Treasury Secretary Snow reiterating this when he traveled to Brazil a number of months ago.

3) The U.S. position regarding agricultural liberalization/reform has changed as a result of election year politics. Echoing a point Dirceu raised with Ambassador, Arno said that Itamaraty has portrayed the pre-Cancun joint U.S.-EU agriculture paper as proof the U.S. has changed its position and is adopting a more protectionist stance. He said this perception is important in terms of how it affects the overall attitude toward the US and any analysis of U.S. motives.

4) The U.S. is out to isolate Brazil. Itamaraty personalizes US aggressive trade policy suggesting that US CAFTA negotiations and discussions with Colombia, Peru, etc are aimed at "encircling" Brazil. Ecouns and econoff argued that the US motivation for these trade talks is to pursue trade liberalization as quickly as possible with like-minded countries that are ready and willing; if Brazil becomes isolated it will be the result of its own decisions and trade policies, which don't coincide with those of a majority of countries in the region. Arno said he understands; he had witnessed the isolation in T&T and knows that countries there were acting out of their own economic interests, but Itamaraty tries to portray it as is they have been forced by the US.

¶11. Arno advised that if DUSTR Allgeier during his meetings in Brasilia October 20-21 could provide information/arguments to Minister Palocci and others that they could use to challenge these perceptions, it would enable them to more forcefully make pro-FTAA arguments.

¶12. Since he had identified agriculture as the GOB's key issue, we asked Arno whether he thought the GOB would withdraw its 3-track proposal if a way around the impasse on domestic support was found. He was unsure, noting that Minister Amorim had stated publicly that week that Brazil would not accept any agreement that would "tie our hands" on industrial policy. He added that the Finance Ministry supports negotiation of rules in services and investment because Brazil is relatively open in these areas and would not have difficulty negotiating a satisfactory agreement. The Finance Ministry does not share Itamaraty's view that the country must safeguard the possibility of adopting nationalistic industrial policies in the future. He also noted that the Finance Ministry had been very favorably disposed toward USTR Zoellick's ideas about a possible baseline approach, having common rules and then allowing others that want to go beyond doing so through bilaterals or plurilaterals.

¶13. As an aside, he opined that one positive thing to have occurred during a tumultuous week of intra-governmental squabbling was the rallying of pro-FTAA forces, in the press, private sector, academia, and government. He also said that personally he was very disappointed by the way the Brazilian delegation conducted itself in T&T and did not understand why they did not use it as an opportunity to explain and sell their proposal.

Conclusions

¶14. Some key points to emerge from these meetings and the post T&T public debate:

-- President Lula's support for Minister Amorim means that Itamaraty will continue to retain a stranglehold on trade policy in general, FTAA in particular. It appears increasingly that Amorim may not accurately portray for Lula the US position or the situation vis-a-vis lack of regional support for the Brazilian position.

-- Itamaraty's defensive interest in avoiding disciplines in services, investment, government procurement, and IPR, is at least as important, if not more so, than its offensive interests in agriculture. This makes it unclear if resolution of the impasse over domestic support would induce Itamaraty to withdraw its 3-track proposal or its proposal in T&T of text for a ministerial declaration. Lack of any give by the USG on negotiating antidumping rules will continue to provide Itamaraty with an excuse to push for removal of issues it deems sensitive from the FTAA.

-- Criticism of Itamaraty concerning Brazil's isolation on substance, and most importantly its struggle to keep Uruguay and Paraguay Mercosur partners in line, interjected doubt about the wisdom of its approach into the policy debate. This opened the door for wide ranging criticism from the press, economic commentators and even other ministers. This undermines Amorim's image as a regional foreign policy leader and introduced the idea that Brazil could be acting as a spoiler.

-- There is substantial support for an FTAA within the GOB. However, despite frustration with Itamaraty over policy formulation and implementation, the other ministries are not well positioned at this time to force a significant change.

-- There appears to be real concern that there will be a train wreck in Miami. The fact that ministers made this a public debate indicates the seriousness with which it is being taken and perhaps was intended as a way of drawing President Lula's attention to the problem.

Comment

¶115. Although the prospect of a change in GOB policy direction before the Miami Ministerial is dim, pressure to change course may grow afterward as other ministers and as the Brazilian private sector come to realize the costs associated with Itamaraty's minimalist approach to the FTAA, whether it is isolation and being left outside an agreement, or possibly accepting major reductions in market access for lower level commitments on rules. Whatever construct the USG decides to pursue for the negotiations in Miami, it would be wise to orchestrate it in a way that amicably leaves the door open for greater participation of Brazil in the future; not only to enable the USG to continue to strive for the larger goal of a totally integrated hemisphere, but also to minimize the opportunity for anti-FTAA factions within Brazil to lay the blame for "failure," or alienation of Brazil, in Miami at the feet of the USG. A consistent message from other countries in the region that their interests do not coincide with Brazil's will be key to helping with the latter.

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